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# REPORT OF THE AD HOC WORKING GROUP ON INVESTMENT AND FINANCIAL FLOWS; NON-DEBT-CREATING FINANCE FOR DEVELOPMENT; NEW MECHANISMS FOR INCREASING INVESTMENT AND FINANCIAL FLOWS ON ITS FIRST SESSION

Held at the Palais des Nations, Geneva,
from 9 to 13 November 1992

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## INTRODUCTION

1. The Ad Hoc Working Group on Investment and Financial Flows; Non-debt-creating Finance for Development; New Mechanisms for Increasing Investment and Financial Flows, established in accordance with paragraph 79 of the Cartagena Commitment, held its first session at the Palais des Nations, Geneva, from 9 to 13 November 1992. In the course of the session, the Ad Hoc Working Group held two plenary meetings. 1/

### Opening statement

2. The Deputy Secretary-General of UNCTAD noted that, in recent years, many developing countries and countries in transition to a market economy had considerably improved their policy and regulatory framework in order to attract foreign investment and to encourage the return of flight capital. The more favourable investment climate had led to a strong recovery in the volume of FDI flows. At the same time, greater emphasis was being placed on FDI as an international policy issue. Another significant development was the growing use of financial instruments, such as portfolio investment, debt-equity swaps, asset-based finance and commodity-linked financing. Unfortunately, these welcome developments had not affected all countries. Over the past 10 years, half of all FDI flows to developing countries had gone to the five largest recipients, and 90 per cent to as few as 20 countries. The other non-debt-creating instruments showed a similar degree of concentration. This situation raised some fundamental questions. What lessons could be learned from the experience of countries that had been successful in enhancing the quantity and quality of FDI? What were the main causes of the difficulties faced by many developing countries in attracting FDI? What were the prospects and policy requirements for reversing current trends and assuring stability in non-debt-creating flows?

3. The immediate objective for the first session of the Ad Hoc Working Group was the establishment of the work programme, and because of the limited time and resources available, choices would have to be made and priority issues selected. The Group was also expected to decide on the time-table for future sessions, the possible setting-up of expert groups, requests for contributions from the UNCTAD secretariat, national experts, non-governmental actors and international institutions, as well as technical cooperation requirements.

4. With regard to participation in the work of the Ad Hoc Working Group, there seemed to be scope for encouraging greater representation of developing countries, and in view of the unavailability of funds to cover the travel expenses of experts from some developing countries, he appealed to donor countries to establish adequate trust fund arrangements for that purpose, at least for the benefit of LDCs.

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1/ For the terms of reference of the Ad Hoc Working Group, see Trade and Development Board decision 398 (XXXVIII), annex, section C.

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## Chapter I

## ESTABLISHMENT OF THE WORK PROGRAMME OF THE WORKING GROUP (Agenda item 3)

5. For its consideration of this item, the Ad Hoc Working Group had before it the following documentation:

"Issues for consideration in the establishment of the work programme: note by the UNCTAD secretariat" (TD/B/WG.1/2).

6. At its 1st plenary meeting, on 9 November 1992, the Ad Hoc Working Group decided to discuss agenda item 3 in informal meetings.

Action taken by the Ad Hoc Working Group on its work programme

7. At its 2nd (closing) plenary meeting, on 13 November 1992, the Chairman introduced a draft work programme (TD/B/WG.1/L.2/Rev.1).

8. At the same meeting, the Ad Hoc Working Group adopted the draft work programme (for the work programme, see annex I).

9. In so doing, the Ad Hoc Working Group agreed that, in carrying out its work, it would give particular attention to the situation of the least developed countries and suggest ways and means for improving their capacity.

10. In connection with its future work, and in conjunction with the approval of the provisional agenda for its second session (see para. 23) below, the Ad Hoc Working Group agreed on the following understandings:

(a) The Ad Hoc Working Group recommended to the Board that it hold two sessions in 1993 and one in 1994. The first session in 1993 should be for one week in June/July, and the second should be in late November. The session in 1994, which would be the final session of the Group, should take place prior to the Spring session of the Board.

(b) Within the framework of the second session of the Group (June/July 1993), arrangements would be made for a discussion on foreign investors' motivations, to which non-governmental actors could be invited.

(c) Case studies would be prepared by countries volunteering to do so. The Chairman, with the assistance of the UNCTAD secretariat, would send members of the Working Group guidelines for the preparation of case studies. In the course of the Group's informal discussions, the following countries had indicated that they would be willing to prepare case studies: Bangladesh; Brazil; China; India; Mexico; Morocco; Netherlands; Republic of Korea; Russian Federation; United States. Some of these countries had indicated that they needed clearance from their capitals before they could give a definite commitment.

(d) The work of the third session (November 1993), with regard to case studies, would be organized in the light of the experience acquired at the

second session. Furthermore, there was a broad consensus that the third session should be devoted to a further discussion on host and home country policies, as well as to a consideration of multilateral measures and portfolio investment and new mechanisms. Participation of non-governmental actors in the third session would also be highly desirable.

11. Finally, the Ad Hoc Working Group also noted the concerns expressed by several developing countries about the constraints facing them with regard to country studies. It recommended that multilateral and bilateral donors consider making funds available to assist these countries for that purpose.

12. The representative of Egypt, referring to the recommendation to hold two sessions in 1993 and one in 1994 (see para. 10 (a) above), said that her delegation did not oppose that recommendation at the present stage, but a word of caution was in order. Given UNCTAD's overall meeting schedule for 1993 and the equal importance of all the ad hoc working groups, it looked as though her country would have to finance at least two experts on a monthly basis to cover working group meetings alone. This would be difficult, and if many developing countries could not bear the financial implications of such a heavy schedule of meetings, attendance at the working groups would be unbalanced. That was not the objective of Cartagena.

Closing statements

13. The representative of the Russian Federation said that the programme adopted by the Working Group was set out in accessible language and provided a real basis for success. His country, which was in transition towards a market economy, attached great importance to promoting investment of all kinds, and it felt that the Working Group could contribute towards the Russian Federation's integration into the world economy. His delegation hoped to be in a position to submit a case study and would participate actively in the work of the Group.

14. The spokesperson for the Group of 77 (Venezuela) said that the Working Group had succeeded in adopting a balanced and objective work programme. The pioneering work done by the Working Group would serve as a benchmark for future groups.

15. The representative of the United States of America said that the methods of work agreed upon by the Working Group were imaginative and he anticipated that the Group would not only use those methods successfully but would also develop them further.

16. The representative of China said that the Working Group had succeeded in adopting a fine work programme. He appreciated the work of the Working Group not only because of the work programme itself but also because it had been the first of the new working groups to meet and would serve as an example for future groups. He looked forward to receiving case-study guidelines in the near future.

**17. The Deputy Secretary-General of UNCTAD expressed the satisfaction of the UNCTAD secretariat with the outcome of the session. The fact that a number of countries had volunteered to prepare case studies was particularly encouraging. The large number of meetings to be held in 1993 would give rise to resource problems, in terms of both secretariat and external resources, but it was hoped that efforts would be made to resolve those problems.**

**18. The Chairman said that the work programme adopted by the Working Group was concise and accessible. The success of the meeting had been made possible by the frank and business-like discussions that had taken place among the experts.**

## Chapter II

## ORGANIZATIONAL MATTERS

### A. Opening of the session

19. The first session of the Ad Hoc Working Group was opened on 9 November 1992 by the Deputy Secretary-General of UNCTAD.

### B. Election of officers

(Agenda item 1)

20. The Deputy Secretary-General of UNCTAD recalled that, at its first pre-sessional executive session, the Board had agreed that the rules of procedure of main committees of the Trade and Development Board should be applied to Ad Hoc Working Groups, albeit in as flexible a manner as possible. It had also been agreed that the officers of the Ad Hoc Working Groups should be elected in accordance with the applicable rules of procedure, taking into account the principle of equitable geographical distribution. Furthermore, at the closing plenary of the first part of the thirty-ninth session of the Trade and Development Board, it had been decided that, as far as the Ad Hoc Working Groups were concerned, the Chairman and members of the Bureau, once elected at the beginning of the initial session, would remain in office for the duration of the life of the Ad Hoc Working Group, and that prior consultations would be held in order to facilitate the election of the Bureau of each of the Ad Hoc Working Groups. Such consultations had been held on 9 November.

21. At its 1st plenary meeting, on 9 November 1992, the Ad Hoc Working Group elected its officers as follows:

Chairman: Mr. J.P. Huner (Netherlands)

Vice-Chairmen: Mr. M.M. Rahman (Bangladesh)
Mr. L. Amaral Lopez (Brazil)
Mr. G. Blehy (Cote d'Ivoire)
Mr. J. Stypa (Poland)
Mrs. E. Shelton (United States of America)

Rapporteur: Mr. R. Serrano (Mexico)

### C. Adoption of the agenda and organization of work

(Agenda item 2)

22. At its 1st plenary meeting, on 9 November 1992, the Ad Hoc Working Group adopted its provisional agenda (TD/B/WG.1/1), as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Establishment of the work programme of the Working Group

4. Provisional agenda for the second session of the Working Group

5. Other business

6. Adoption of the report of the Working Group to the Board.

## D. Provisional agenda for the second session of the Working Group

(Agenda item 4)

23. At its 2nd (closing) plenary, on 13 November 1992, the Ad Hoc Working Group approved the draft provisional agenda for its second session (TD/B/WG.1/L.3), with some oral amendments. (For the provisional agenda as approved, see annex II).

## E. Other business

(Agenda item 5)

24. The CHAIRMAN recalled that, at its first pre-sessional executive session in September 1992, the Board had decided that, as regards other non-governmental actors (including enterprises, trade unions, the academic community and non-governmental organizations other than those having status with UNCTAD), the list of persons to be invited from this category would be approved in advance by the Bureau of each body on the basis of proposals by the secretariat. In this context, delegations would be free to submit their suggestions to the secretariat, for transmission to the Bureaux of these bodies (TD/B/EX(1)/4, para. 6 (e)).

25. In that connection on the proposal of France, the Bureau had decided to include the NGO "Epargne sans frontières" in the list of organizations to be invited. Other members of the Working Group were encouraged to submit their suggestions concerning non-governmental actors to the secretariat for transmission to the Bureau.

## F. Adoption of the report of the Working Group to the Board

(Agenda item 6)

26. At its 2nd (closing) plenary meeting, on 13 November 1992, the Ad Hoc Working Group adopted its draft report (TD/B/WG.1/L.1) and authorized the Rapporteur to complete the report to reflect the proceedings of the closing plenary.

## Annex I

## WORK PROGRAMME ADOPTED BY THE AD HOC WORKING GROUP

1. Pursuant to "A New Partnership for Development: The Cartagena Commitment", adopted at the eighth session of the Conference, the Ad Hoc Working Group agreed, on the basis of Board decision 398 (XXXVIII) which sets out in section C of the annex the terms of reference of the Ad Hoc Working Group on Investment and Financial Flows; Non-debt-creating Finance for Development; New Mechanisms for Increasing Investment and Financial Flows, on the following work programme.

### A. Global trends and issues

2. Drawing on existing studies, the Ad Hoc Working Group will:

(a) Provide analysis on factors, traditional and non-traditional, determining non-debt-creating flows and their geographical and sectoral distribution;

(b) Examine the role of global factors, foreign investors' motivations, and the interaction between such factors and national, regional and international policies to promote non-debt-creating finance.

### B. Policies and measures to promote foreign direct investment (FDI)

3. On the basis of country presentations, the Ad Hoc Working Group will facilitate an exchange of experiences with respect to national, regional and international policies and measures to promote FDI.

4. In particular, the Ad Hoc Working Group will:

(a) Assess the role of the overall economic policy framework in host countries;

(b) Examine the role of the regulatory framework for FDI;

(c) Conduct a comparative study of the effectiveness of fiscal and financial incentives, investment promotion activities, and debt swaps;

(d) Assess experiences with export processing zones and special economic zones, and their relationship with the host country economy;

(e) Analyse the effectiveness of incentives and promotional measures including, inter alia, credit and investment insurance schemes adopted by home countries, and the role of ODA in supporting host country investment efforts;

(f) Review the role of bilateral investment and double taxation treaties;

(g) Assess the impact of regional and multilateral measures, including financing, insurance schemes and advisory services, on FDI flows and the complementarity of the various components of such measures;

(h) Identify policies and measures which could contribute to the return of flight capital.

C. Portfolio equity investment and new mechanisms

5. The Ad Hoc Working Group will:

(a) Collect and disseminate information on portfolio equity flows;

(b) Conduct a comparative analysis of the experience of host countries and international financial institutions in stimulating portfolio investment, as well as in improving the standards of stock markets;

(c) Analyse the economic and financial impact of portfolio equity flows on host country economies, in the context of domestic capital market development and financial liberalization;

(d) Assess experiences and the potential role of asset-based financing techniques.

D. Strengthening technical cooperation

6. In carrying out the above activities, the Ad Hoc Working Group will identify areas where technical cooperation should be strengthened.

## Annex II

## PROVISIONAL AGENDA FOR THE SECOND SESSION OF THE AD HOC WORKING GROUP

1. **Adoption of the agenda and organization of work**
2. **Consideration of global trends and issues, including foreign investors' motivations**
3. **Consideration of host and home country policies and measures to promote foreign direct investment, including export processing zones and special economic zones**
4. **Provisional agenda for the third session of the Ad Hoc Working Group**
5. **Other business**
6. **Adoption of the report of the Ad Hoc Working Group to the Board**

## Annex III

## ATTENDANCE 1/

1. The following States members of UNCTAD, members of the Ad Hoc Working Group, were represented at the session:

Algeria
Austria
Bangladesh
Belgium
Brazil
Bulgaria
Canada
China
Colombia
Côte d'Ivoire
Cuba
Czechoslovakia
Democratic People's Republic of Korea
Egypt
France
Germany
Greece
India
Indonesia
Italy
Japan
Libyan Arab Jamahiriya
Mali
Mauritius
Mexico
Morocco
Myanmar
Netherlands
Nigeria
Norway
Pakistan
Poland
Republic of Korea
Romania
Russian Federation
Saudi Arabia
Spain
Sri Lanka
Switzerland
Syrian Arab Republic
Togo
Tunisia
Turkey
Uganda
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Venezuela
Zimbabwe

2. The following other States members of UNCTAD, not members of the Ad Hoc Working Group, were represented as observers at the session:

Afghanistan
Argentina
Australia
Bolivia
Brunei Darussalam
Chile
Ethiopia
Finland
Gabon
Iraq
Ireland
Madagascar
Malaysia
Nepal
New Zealand
Panama
Peru
Philippines
Qatar
Thailand
Uruguay
Viet Nam

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1/ For list of participants, see TD/B/WG.1/INF.1.

3. The International Trade Centre UNCTAD/GATT was represented at the session.

4. The following specialized and related agencies were represented at the session.

International Labour Organisation
World Bank
International Monetary Fund.

The General Agreement on Tariffs and Trade was also represented.

5. The following intergovernmental organizations were represented at the session:

European Economic Community
Latin American Economic System
Organisation for Economic Cooperation and Development

6. The following non-governmental organizations were represented at the session:

General Category

International Chamber of Commerce
Women's International League for Peace and Freedom
World Federation of United Nations Associations

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